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ABSTRACT

This paper reports that most of the States have appropriated more dollars to support local education than would be required to cover inflationary increases. According to the author, the new money is being channeled into equalization and foundation programs, and States are starting to experiment with "district power equalization." In its simple form, district power equalization is a technique that guarantees the yield per pupil from a given local property tax rate. The document first summarizes in detail new Montana and Kansas power equalizing laws, and then discusses the failure of full stand funding in Oregon, the only State to make a serious attempt to enact the plan this year and North Dakota's increase in State spending for operating costs from 42% to 70%. One chapter is devoted to the explanation of a plan adopted in Utah where State spending is based on cost. The document concludes with summaries of property tax reform efforts in Maryland, Oregon, Florida, and California. The appendix lists recent school finance studies undertaken by almost every State in the nation. (Author/DN)

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MAJOR SCHOOL FINANCE CHANGES IN 1973

(Preliminary Paper)

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Wendell H. Pierce, Executive Director
Education Commission of the States

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PREFACE

This preliminary paper is the first step in preparing a report which will cover major school finance changes in the states in the current year. The information included in the preliminary report covers those major changes on which details were available as of May 17.

Readers are invited to send to the ECS Finance Project their comments on this paper, including any changes in format or content which would make the final publication more useful to state decisionmakers.

For this preliminary report, we have not had the opportunity to have our analyses reviewed by specialists within the states covered. This review will be performed for the final publication. We would appreciate being informed of any inaccuracies.

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INTRODUCTION AND SUMMARY

School finance systems are undergoing continual change. Some of the change is incremental; some is far-reaching. The 1973 state legislative sessions have produced a number of substantial changes so far—in Kansas, Montana, North Dakota and Utah.

The sharply rising costs of education have led to rapid increases in local property taxes, which supply about half the non-federal funds, on a nationwide basis, for the $50 billion business of running the schools. These increases have heightened the inequities which arise out of supporting the schools from a tax base whose wealth varies from district to district. Cost increases have underscored inequities—and have stimulated a "taxpayer revolt."

The pressure for change increased sharply after the 1971 California Supreme Court decision in *Serrano vs. Priest* ruled against making school spending dependent on local district wealth. Similar court cases have sprung up across the country. By August 1972, 52 such cases had been identified in 31 states.[1] The U.S. Supreme Court decision in *San Antonio Independent School District vs. Rodriguez*, which ruled that the Texas system did not violate the U.S. Constitution, has eliminated the pressure from federal courts.

Pressure from state courts, however, continues. Shortly after the *Rodriguez* decision, the New Jersey Supreme Court held, in *Robinson vs. Cahill*, that New Jersey's school finance system was unconstitutional under a provision dealing explicitly with education. Thirty-four of the current cases have been filed on both state and federal grounds, with 16 of them (including New Jersey) appealing to explicit provisions on education in state constitutions.

Four basic responses have been adopted to eliminate—or at least reduce the unfairness. One has been to equalize the tax-raising power of local districts to support specified levels of per-pupil spending. The second has been to shift school costs away from the property tax base to general state funds. The third has been to change the techniques used for distributing state funds. The fourth has been to reform or relieve the property tax.

Reaction in the States

Largely because of pressure from the court cases, a series of steps toward reform was taken in the states. State legislatures, governors and state departments of education commissioned study groups to discover better ways of financing public schools. By June 1, 1972, study groups were organized in all 50 states.[2] One year later, a good share of those groups and committees have produced reports and made recommendations. Appendix 1 lists some of the reports completed by these study groups. The reports range in length from a few pages to the three volumes of the New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education (the Fleischmann Commission). Recommendations have varied from urging full state funding of elementary and secondary education to calls for re-drawing school district lines.

It is impossible at this time to assess the total impact of the study commissions. Many of them have just presented their findings to their respective states. Some states have adopted new finance laws growing out of study commission recommendations.

The Year of District Power Equalization

As of May 17, 1973, 23 state legislatures have adjourned for the year. Based on the information now available, it appears that it has been a very good year for the schools. Most, if not all, of the states have appropriated more dollars to support local education than would be required to cover inflationary increases. The new money is being channeled into equalization and foundation programs.

States are starting to experiment with "district power equalization." In its pure form, power equalizing is a technique which guarantees the yield per pupil from a given local property tax rate. For example, a state may guarantee that 28 mills levied for education in any district will enable the district to spend $610 per pupil. If 28 mills do not produce that amount, the state will make up the difference. If the 28 mills produces more than $610, the excess is recaptured by the state to make up shortages in other school districts. School districts are given equal spending "power" if they choose to use it.[3] In the most popular modification to this plan, the state does not "recapture" the revenues produced in excess of the guaranteed yield.

One advantage of power equalization is that, besides accomplishing equalization, it allows a local choice in spending level. A major change in the tax structure is not required. State foundation programs can be modified to the power equalizing concept. Chapter One summarizes in detail new *Montana* and *Kansas* power equalizing laws.

Full State Funding and Increased State Aid

Full state funding of schools did not succeed in *Oregon*, the only state to make a serious attempt to enact the plan this year (Hawaii already has a single statewide school district). The Oregon legislature approved a plan that would have substantially done away with local property taxes for school. Funding would come from state taxes on income and business profits. Oregon voters decisively rejected the plan in a statewide referendum on May 1, 1973. Several other states have substantially increased their levels of state funding. Probably the largest jump was in *North Dakota*. State spending for operating costs jumped from 42 per cent to approximately 70 per cent. *Kansas*, according to estimates made at the time of its 1973 bills passage, will now pay 48 per cent of operating costs; the state previously paid 29 per cent. A new finance law in *Maryland* will increase state aid as well as equalize district spending over a five-year period. Maryland earlier assumed the full financing of local capital construction costs. See Chapter Two for more on Oregon and North Dakota

Spending Based on Cost

In *Utah*, although a record appropriation was made for schools, the most significant change was a new distribution plan. An effort was made to identify the varying costs of educating different categories of pupils. The new law has a weighting system which includes 10 categories of handicapped children as well as several categories for vocational education. Chapter Three explains the Utah plan and how it developed.

A New Way to Insure Change

One of the most interesting school finance developments has been in the state of *Arizona*. For the past several years the legislature has been trying to come to grips with the problem of school finance reform. In the 1973 legislative session, appropriations were made for the 1973-74 school year and *all existing* school finance laws were abolished, effective July 1974. Budgets for the 1974 school year must be submitted by the same date under existing law. The legislators now have no alternative but to enact a new law at a long-awaited special session on school finance to be called in the fall of 1973.

Property Tax Relief and Reform

Property tax administration and school finance reform are closely related. Disparities in local taxable wealth led to the *Serrano*, *Rodriguez* and *Robinson* court decisions. These cases have helped to bring attention to other inequities in the property tax system, especially the problems of unfair tax burdens within districts and the lack of uniformity in assessments of property for tax purposes.

There has been considerable state activity in the area of property tax relief. Senior citizens and low-income families are now partially relieved of their property tax burden in virtually every state through "circuit-breakers" and homestead exemptions. Reform of assessment practices has not been so widespread. Very little change has taken place since the Advisory Commission on Intergovernmental Relations identified specific problems in 1963.[4] Chapter Four summarizes reform efforts in *Maryland*, *Oregon*, *Florida* and *California*

NOTES

[1] *Intrastate School Finance Court Cases: States and Cases as of August 1972*, Lawyers' Committee for Civil Rights Under Law, Washington, D.C.

[2] Dr. Chris Pipho, *Survey of School Finance Study Commissions and Committees* (Denver, Colorado: Education Commission of the States, Research Brief No. 1, June 1, 1972).

[3] John E. Coons, William H. Clune III and Stephen D. Sugarman, *Private Wealth and Public Education* (Cambridge, Massachusetts: Belknap Press of Harvard University, 1970), pp. 201-242.

[4] Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, 2 Volumes (Washington, D.C.: U.S. Government Printing Office, June 1963).

MAJOR SCHOOL FINANCE CHANGES IN 1973

Chapter One

DISTRICT POWER EQUALIZATION: KANSAS AND MONTANA STYLE

"District power equalization" has been proposed as a means of meeting the equity criteria emerging from recent school finance court decisions. It is a technique used to guarantee each school district a sufficient dollar yield per pupil from a given local property tax rate. State aid would make up the difference in districts where the local tax did not raise enough revenues. Where more than enough money was raised, the excess would be "recaptured" by the state. One objection to this alternative has been that it has so far been untried. In 1973, two states adopted "power equalizing" plans. Kansas adopted a plan modified to exclude the the recapturing of funds from property-rich districts. Montana adopted a plan which includes recapturing.

A New School Finance Law for Kansas

After two years of legislative effort and after a state district court ruled the state finance law unconstitutional, Kansas has adopted a new funding system. Some Kansas legislators have called the measure the most significant public school finance law ever enacted in the state. The new law, Substitute Senate Bill 92, is a substantial change from the foundation plan enacted in 1965.

The 1965 Plan

Under the 1965 foundation plan, state support to local school districts was calculated by a formula that took into account teacher training and experience and the pupil/teacher ratio. A minimum support level was determined. The state formula rewarded districts that exerted extra effort to obtain highly qualified teachers and to have fewer pupils per teacher. The state supplemented local revenues to help districts reach the foundation level. The plan *did not* accomplish a great deal in the way of equalizing district resources and spending. For example, the Moscow School District levied an equalized tax rate of 6.59 mills and raised $762 per pupil. The Galena School District levied 34.46 mills and raised only $159 per pupil. Even after the Galena district added in state supplemental and general aid, it could still spend only $409 per pupil. The Moscow district was able to spend more than Galena with only one-fifth the tax rate.

The 1965 foundation plan had a budget control provision. Districts were not supposed to spend, for operating expenses, more than 104 per cent of the previous year's legally budgeted expenses per pupil. However, by 1970 the legislature had passed 16 grounds for exceeding the limit. Three-fourths of the school districts won appeals for budget increases above the limit. The limit actually applied, therefore, to only one out of four school districts.

Some legislators became convinced that it would be wiser to draft a new law rather than make continual adjustments to the old foundation law. The first attempt failed. Senate Bill 716 was introduced in 1971 as a *district power-equalizing plan.* The bill prescribed a local tax effort of 1.75 per cent of local wealth. Local wealth was defined as the sum of the equalized property valuation and the taxable income of the local school district. Districts taxing themselves at a higher rate would be rewarded with more state funds. Districts with lower rates would receive less state aid. The plan called for revenue in excess of a state-guaranteed per-pupil amount to be *recaptured* by the state for equalization purposes. The bill was not reported out of the Senate Education Committee.

Since the defeat of that bill, a state district court ruled against the Kansas school funding system (*Caldwell vs. Kansas*, 1972). The court gave the state until July 1973 to come up with an acceptable plan. In its spring session, the 1973 legislature adopted Substitute Senate Bill 92, an act quite similar to Senate Bill 716 of 1971.

The School District Equalization Act of 1973

The School District Equalization Act or Substitute Senate Bill 92 uses the following key features in its "district power equalizing" plan:

1. A *local effort rate*, determined by a district's decision on its spending level;
2. A measure of district wealth which includes both *equalized property value* and *taxable income*;
3. *Norm budgets per pupil*, based on enrollment-size categories; and
4. Expenditure limits.

State aid, under the new law, will equal the difference between a district's budget and four deductions which the act includes in *local effort*. The bill defines *local effort* as the sum of:

1. District wealth times the district local effort rate.
2. District receipts from certain federal funds.
3. A district's share of a two-mill county school foundation tax levy.
4. A district's share of a state-mandated tax on intangible property.

The major equalizing factor in the computation of state aid is the first deduction (district wealth times the district local effort rate).

The *local effort rate* for a district varies according to spending level. It is defined in the bill as 1.5 per cent of district wealth, if a district decides to spend at the *norm budget per pupil level*. If a district decides to spend more or less than that level, its local effort rate is adjusted up or down proportionately.

District wealth is defined as the sum of *equalized property values* and *taxable income* in a district.

A *norm budget per pupil* is established for three enrollment categories. Median operating costs for the categories were used to develop the norm budgets. The norm budget for districts of 1,300 or more students is $728 per pupil. Districts under 400 students have a norm budget of $936. For districts between 400 and 1,299, the norm budget decreases from $936 as enrollment increases.

Substitute SB 92 has been called a *power equalizing* bill since each school district will have the power to choose its level of spending per pupil. A local property tax is to be used to make up the difference between (1) state aid, (2) the other local district revenues described earlier and (3) a 10 per cent income tax rebate which the act provides to local districts. But there is *no* provision in the act for the state to recapture local revenue raised in excess of guaranteed levels. Equalization funds will come from state revenues rather than from excess local property tax revenue in wealthy school districts.

The new law tries again to set *expenditure ceilings*. District budgets must stay within 105 per cent of the median expenses of school districts in the same enrollment category in the previous year. However, districts can budget above this figure, if the voters of the district approve, to an amount not greater than the highest budget per pupil in school districts of the same category. In no case can the budget exceed 115 per cent of the previous year's operating budget. No district can spend less than $600 per pupil.

Transportation costs are calculated according to a density factor. The state will now pay 100 per cent of the cost calculated from the density factor or 100 per cent of actual per-pupil transportation cost, whichever is lower.

Kansas will pump $67 million in new state funds into the operating costs of elementary and secondary schools. Total state support for this category of spending will jump from 29 per cent to 48 per cent. Statewide, the act is estimated to reduce local property taxes by $53 million. These estimates, made at the time of the bill's adoption, are subject to change with changes in assessed valuation, reports of local budget decisions and the final September enrollment figures. Existing state revenues will pay for the property tax relief.

As in most equalizing plans, there are winners and losers. It appears that in Kansas, losers will be few. The reason is that the state is providing equalizing revenue from general fund dollars. The level of state support is high enough that most of the districts will qualify for some support. Fifty-three districts stand to receive less state aid than they received last year. These districts constitute 17 per cent of all school districts and represent only five per cent of the student population. Twenty-nine of the 53 districts will receive no state aid. These districts represent 2.4 per cent of the student population.

Montana Modifies Its Foundation Plan

The Montana legislature has modified its foundation plan to provide greater equalization of school district resources. House Bill 428 provides for a uniform *county property tax rate* for schools and for the *recapture* of revenues in excess of a state guarantee.

The Previous Foundation System

Montana has been providing about 25 per cent of nonfederal revenue for local elementary and secondary education. Local revenue comes mainly from local property taxes. Local districts raise a little more than half of the local revenue, the remainder is raised by county property taxes.

Montana, like other sparsely populated western states, is blessed with abundant natural resources. Unfortunately, copper and oil are not always located in the more populated school districts. The result is that extremely small school districts sometimes have the benefit of extremely valuable real estate. Disparities in wealth and spending per pupil are not uncommon. Montana's foundation program attempted to deal with this disparity problem.

State Equalization Aid: Pre-1973

To participate in the foundation program, a county was required to levy a 40-mill property tax (25 mills for elementary schools and 15 mills for high schools). The state guaranteed that school districts would have enough resources to cover 80 per cent of foundation levels set for various enrollment categories. For example, a high school with 601 or more students would be guaranteed 80 per cent of $546 per pupil. The state would pay the difference between the guaranteed amount and what local districts could raise with the required levy. Local school districts could levy additional taxes, up to 25 per cent above the foundation level, without voter approval.

The problem with the foundation program was that some counties in sparsely populated oil-rich areas needed to levy only a fraction of the rate required for participation in the foundation program. Their lower tax rates produced revenues higher than those guaranteed by the state's foundation program.

House Bill 428

House Bill 428 is Montana's version of *power equalization.* It required only minor changes in the foundation law. The bill passed the legislature and was signed by the governor in March 1973.

Under the new law, *all counties* are required to levy a 40 mill property tax (25 mills for elementary and 15 for high schools). If these mills produce more revenue than the foundation levels for each enrollment category, the state will *recapture* the excess. Some rich counties will have to levy 20 to 30 new mills. All the revenue produced by these new mills will go to equalize the funds available to poorer counties and school districts.

In addition to the foundation program, districts can now levy nine mills for elementary schools and six mills for secondary schools without a vote of the people. The state will make up the difference between what these mills produce and a sum equal to 25 per cent of the district's foundation level. The state is allowed to levy a statewide property tax to make up any deficiencies in revenues for the equalization program. School districts are still allowed to vote for extra mills for special programs. The state does not guarantee the yield of these mills.

The state is now imposing an expenditure limit on school district spending. Spending cannot exceed 107 per cent of the previous year's spending.

One pitfall of the new program is *unequalized property assessments* in the various counties. By requiring counties to levy a uniform number of mills, the state has in effect established a state tax based on local assessments. Differing levels of assessments among the counties can greatly affect the effective tax rate. Counties stand to have lower tax bills for schools by keeping assessed values low in relation to true or market value (although this would also lower their borrowing capacity). Montana is in the process of making assessors agents of the state; this may eventually help the situation by making assessments more uniform.

Chapter Two

FULL STATE FUNDING ATTEMPTED IN OREGON: MORE MONEY IN NORTH DAKOTA

Under a full-state-funding plan, substantially all nonfederal school funds would come from state taxes. The taxes to be used could include a statewide property tax, sales and use and income taxes. The state government would assume the responsibility for financing substantially all of the nonfederal outlays for public elementary and secondary education. The state would then allocate revenues to local schools in a manner that would provide equal educational opportunity.

The Advisory Commission on Intergovernmental Relations has supported such a plan for years. More recently the President's Commission on School Finance called for the states to move in this direction. Hawaii, with one statewide school district, is the only state to provide full state funding for elementary and secondary education. *Maryland* has full state funding of *capital outlay*. In 1973, Oregon's governor and legislature presented a full-state-funding plan which was rejected in referendum. North Dakota moved to a level of 70 per cent state funding, a sharp increase from its previous 42 per cent share.

Full State Funding Fails in Oregon

Governor Tom McCall of Oregon proposed and the state legislature approved the most sweeping change in any school finance system in recent years. But on May 1, 1973, the plan was decisively turned down in a statewide referendum. The bill is important, though, because it represents the first serious attempt of a state to move to full state funding with one piece of legislation. The bill (House Bill 2004) may serve as a model for future attempts to implement full state funding not only in Oregon but in other states.

A Change in the Tax Structure

Perhaps the most significant aspect of the McCall plan was the proposed method of raising educational revenues. The plan would have done away with local property taxes for schools, except for two mills. Oregon would have replaced the lost revenue with increased personal and corporate income taxes. A statewide property tax would be levied on local assessments. The plan provided a method of equalizing the state tax on local assessments. The business community would be subject to a new tax on profits.

Governor McCall claimed that 85 per cent of the residents of the state, plus most small businesses, would have realized a tax decrease under the plan. Personal income taxes would have risen for most residents. However, property tax reductions would have more than made up for the increased income tax.

Allocating the Dollars

House Bill 2004 would have given every school district a flat grant of $900 per pupil. Minor adjustments would have been made for certain federal revenues received by some school districts. Students were to be weighted by grade levels, with high school students weighted at 1.3. Calculations were based on current spending plus a six per cent increase. Districts spending below $900 could have increased at a faster rate to reach the $900 level within two years.

Each school district would be allowed to levy a two mill local property tax. The revenue from this tax plus a state equalizing grant would cover expenditures between $900 and $1,200 per weighted pupil. The bill provided for a six per cent annual

inflationary increase, except for certain small districts spending over $1,200. Local school districts would have remained responsible for the payment of their indebtedness and interest on capital outlay. The state would pay 55 per cent of transportation costs.

Opposition and Local Control

The reasons for the defeat of the plan at the polls are not clear. It could have been caused by the fear that, in a state-funded school system, local boards of education might not control policy. The backers of full state funding claim that local board members, with fund-raising off their minds, would be free for the first time to consider educational policy matters. Opponents say that he who controls the dollar controls what happens with the dollar. The bill designers anticipated opposition arguments. The law said it was legislative policy "that the provision of education in elementary and secondary school districts is the right and responsibility of locally elected school officials." Apparently the opposition was more convincing.

There are other reasons that help to explain the bill's defeat. The complexity of the matter may have confused many people, leading them to reject the unknown. They may not have really known whether or not they were going to come out ahead tax-wise. They may have felt that the state was moving too fast into an irreversible situation. Opposition of some large business interests may also have played an important role in the bill's defeat.

More Money for North Dakota's Schools

North Dakota did not try to implement full state funding. The reasons the state is discussed here is that the percentage increase in state dollars for education was the largest of any state in the country so far in 1973.

Senate Bill 2026

The North Dakota legislature in approving Senate Bill 2026 put into motion a $118 million foundation program. It was the most expensive piece of legislation the state has ever known. *One-third* of the state's budget will now go to elementary and secondary schools. The state's share of the cost of education increased from 42 to 70 per cent.

Cost Weightings

Specifically, the bill raises the base per pupil payment from $260 to $540. Pupils are assigned weightings based upon the size of school they attend and upon grade level. For example, students in small enrollment high schools are weighted at 1.70 while pupils in elementary schools with enrollments of 200 or more are weighted at .88. (See Appendix 2 for the complete list of weightings.) Per-pupil payments are based on the number of weighted pupils. In addition to this increased state aid, state transportation payments will increase from 16 cents to 23 cents per mile.

Tax Relief

School districts will be required to roll back their local levies by 15 mills. This rollback will amount to a total of $18 million in property tax relief over the biennium. A companion bill cut income tax rates $2.8 million and repealed the sales tax on groceries for another $8.7 million reduction. The tax relief and the $118 million foundation program will mean that the state must come up with $39 million in new school revenue. This is possible because of a $40 million carryover from the previous biennium plus conservative estimates on income and sales tax revenues over the past few years.

Chapter Three

WEIGHTINGS AND EQUALIZATION IN UTAH

The Utah Legislature appropriated a record $22.6 million increase ($216 million total) in state school funds in Senate Bill 72. The most significant feature of Utah's new law is a change to allocating revenue on the basis of *weighted students.* The bill provides an extensive system of weighting factors for 10 categories of handicapped education. Other weightings are established for small schools, professional staff costs, administrative costs and for vocational education. The new law *equalizes* school district spending per weighted pupil.

The Previous Finance Law

For nearly 50 years Utah has been allocating funds to school districts on the basis of distribution units. A distribution unit (DU) was allowed for each 27 students in grades 1 through 12 who were in average daily attendance (ADA). One DU was alloted for each 50 pupils in average daily attendance in a half-day kindergarten program. Special units were allotted for small rural schools, handicapped children programs, vocational and special education programs and for professional nonteaching personnel.

Funds were raised and allocated under three programs: (1) the basic school program, (2) the board leeway program and (3) the voted leeway program.

Under the basic program, local districts were required to levy a local property tax of 16 mills. The state guaranteed that 16 mills would raise $9,210 per DU. If 16 mills produced more than $9,210, the difference had to be remitted to the state. No remittances were made for the past several years.

Under the board leeway program, local boards of education could levy up to 12 mills extra. Each of these extra mills was guaranteed to produce $225 per DU. Districts that raised more than $225 did not lose the excess.

Voters could choose to levy additional mills for school purposes. The state guaranteed that each voted leeway mill would produce $110 per DU. Only 11 of 40 districts voted for the extra mills.

The system provided for a fair degree of equalization. The basic program was a *power equalizing* concept. Local discretion about additional spending was possible through the board and voted leeway programs. Mill yield was guaranteed but no limits were placed on spending in rich districts. Special DUs for handicapped and vocational education based allocations partially on educational need. At the end of the final year of the finance law, expenditures ranged from $1,551 per pupil in a rural district to $559 per pupil in a suburban district.

The Beginning of a New Law

Utah's old system met many of the objections of school finance court cases across the country. The National Educational Finance Project had listed Utah as second only to Hawaii on the equalization of resources within the state. Yet some legislators and the governor felt improvement could be made. Utah is undergoing a local government modernization study. Part of that study considered education. Subsequently, the legislature commissioned the legislative council to make a study of how to improve the system to meet all the demands of school finance court cases.

The Legislative Council Study

The major emphasis of the study was how to allocate resources on the basis of educational costs and needs. The study group examined the educational cost indices developed by the National Educational Finance Project, the State of Washington and Richard Rossmiller of the University of Wisconsin. It was decided that an index or system of weightings would be developed for Utah. The group examined the cost of

educating the various categories of students in Utah over the past two years. Data from all 40 school districts were examined. The most difficult problem encountered was overcoming the lack of adequate information. The kind of data needed to develop weightings was extremely scarce. Many school districts had their own systems of reporting. The researchers often had to interpolate data to make it comparable statewide.

Another concern of the study was to decide on what basis money should be allocated. Under the old system, resources were allocated by distribution units (DUs). A basic controversy in designing state formulas based on the number of pupils, rather than the number of distribution units, is whether to use the number of students in average daily attendance (ADA) or the number in average daily membership (ADM). An ADA count discriminates against districts with high truancy rates, which probably need more funds to deal with truants.

This controversy came before the legislature with every school appropriation bill. The study group decided to scrap the DU system and to combine ADA and ADM in calculating allocations. ADA was used to encourage schools to keep attendance up. ADM was averaged in to aid school districts with special attendance problems. The final unit of allocation recommended was weighted $\frac{\text{ADA + ADM}}{2}$.

Senate Bill 72

The legislature essentially accepted the legislative council's recommendation. One reason for the acceptance may be related to the effectiveness of the legislative staff. Several staff members of the Joint Budget and Audit Committee were loaned to the study group. Consequently, they understood the proposals and were able to explain them to the legislature.

The real problems in passing the bill came from individual school districts. The final bill contained special proposals helping certain districts that might stand to lose otherwise. A $600,000 compensatory education program was provided for large urban districts. For small rural districts, a weighting system took into account their special costs. School districts located adjacent to universities gained from a provision paying school districts extra funds for teachers with advanced degrees.

The new law will take effect in the 1973-74 fiscal year beginning in July. Meanwhile, the Utah State Department of Education is busily establishing rules and guidelines required by the bill. Almost every state form has to be redesigned.

Equalization

The combination of elements in Utah's new school finance law has a strong equalizing effect. The new law calls for $508 to be allocated per weighted student. Each district must levy 28 mills (the equivalent of the old basic program plus the old board leeway). The 28 mills is guaranteed to raise $508 per weighted student. Excesses (which are unlikely) will be recaptured by the state. One district presently levies only 17.6 mills and will be given three years to reach the 28-mill level. Districts can still vote for up to 10 extra mills. The districts will be guaranteed $4 per weighted student for each of these extra mills. When all the categorical grants are applied, Utah's districts will spend an average of $613 per weighted pupil. The program's effectiveness in equalizing can be seen in the estimate that the school district whose spending falls furthest below that average will spend only $34 per pupil less than the average.

Educational Need and Cost

The new system is a more refined method of allocating revenue on the basis of educational need and cost. Weightings are established for the following: (1) small schools, (2) handicapped education (10 categories), (3) vocational education, (4) professional staff cost, (5) administrative costs, (6) miscellaneous categories. The actual weightings can be found in *Utah School Finance Study: A Report to the Education Committee of the Utah Legislative Council* or in SB 72.

The bill also appropriates money for a number of special categorical programs. Included among these is $545,000 for instructional media centers, $650,000 for extended year, extended day and summer programs, $325,000 for community school

programs, $600,000 for compensatory education, $250,000 for elementary school guidance and $4,165,300 for state-supported transportation.

What the New Law Did Not Do

The new finance law did not tackle the problem of equalization of capital costs. The legislature did (in another bill) increase state aid to local construction.

The bill caused no major shift in the state financial structure. Local revenue will still be raised by the property tax. Tax rates will remain about the same. State revenue comes from the sales, income and state property taxes.

Chapter Four

CHANGES IN PROPERTY TAX LAWS

Property Tax Relief

Property tax relief has been one of the most popular kinds of legislation acted upon in recent state legislative sessions. Forty-nine states now either finance, mandate or authorize property tax relief for low-income, elderly homeowners. *Arizona*, the 49th state to adopt such legislation (on May 9, 1973) authorizes a property tax relief measure that also returns one-fourth of property taxes paid to all homeowners. Increased state school aid in most states may also reduce the local property tax burden.

Nineteen states have now adopted "circuit-breaker" laws. These laws rebate money or give tax credits to taxpayers whose total tax bill exceeds a certain percentage of income. Four states, *Indiana*, *North Dakota*, *Nevada*, and *Michigan* adopted "circuit-breakers" in 1973. *Vermont* strengthened its 1969 "circuit breaker" to include more taxpayers. Vermont will pay for its "circuit-breaker" by a special tax on excess capital gains.

In the midst of this tax relief activity, some states have overlooked some sound principles in revenue theory. For example, states are continuing to require local governments to grant exemptions on the basis of the first $1,000 to $5,000 of *local assessed valuations*. Thus, where assessments are not uniform the total relief granted by exemption laws differs with each assessor's estimate of local assessed valuation.

It may be that taxpayer resentment over property tax inequities will be curtailed by the numerous relief programs enacted in the states. It should be remembered, though, that tax relief *does not* cure the administrative inequities of the property tax.

Property Tax Reform

The biggest story to date concerning property tax reform comes from *Maryland*. Maryland's system of reform dates back to 1959. The legislature in that year set up a Maryland State Department of Assessments and Taxation. The director was appointed by the governor and serves under the state merit system. The state department prepares and maintains all tax maps for local assessors. The department prescribes all local assessment forms and establishes procedures for their use.

The state set statutory minimum salaries for all grades of assessors and appraisers. Sixty per cent of the statutory salary was paid by the state (in some counties, assessor salaries are higher than the state statutory salary). The state certified assessors and required them to take an annual five-day training program.

The 1973 legislature has now passed House Bill 531 which makes property assessment *completely a function of the state*. Assessors will be paid by the state and work for the state under the merit system. The bill provides a transition period for assessors being paid more by counties than the state pays. Hawaii is the only other state with a state-administered system of property assessment.

Florida for the past two years has used a property assessment ratio study conducted by the auditor general (an appointee of the legislature) to adjust the school finance formula. Where county assessments were shown to be below full fair market value, state school funds were reduced proportionally.

The system was thrown out by the courts in 1971 because of statistical weaknesses in the ratio study. In April 1973, the Florida Supreme Court upheld the lower courts. It said it was unconstitutional for an appointed state official to overturn decisions of a locally elected tax assessor whose office is created by the state constitution. The Florida Legislature then recessed temporarily to find a solution to unfair tax assessment practices.

In the meantime, HB 1331, which passed the house by a vote of 100-7, and subsequently passed the senate with some changes, remained in conference committee. The bill calls for broader state supervision of local assessment administration. The state

would prepare and maintain a current manual of instructions for tax assessors as well as prescribe all forms to be used in assessment. The state would prescribe and furnish aerial photographs and ownership maps to the assessors as necessary to insure that all property is listed on the tax rolls. The bill sets up a state property assessment loan fund to aid in the upgrading of local assessment practices. Under the bill, the state could refuse to certify tax rolls where assessments are deemed inconsistent with state law and sound assessment practices.

California has continued to make progress in reforming and strengthening its property tax system. One of California's outstanding programs has been the use of "multiple regression analysis" and computer-assisted property appraisal. These techniques provide tentative appraisal values whose accuracy can easily be checked. In some counties, assessments have become more accurate than those of even the best assessors who do not use this technology. The computer is putting an end to the need for cyclical re-evaluation over periods of four to six years because appraisals are kept fairly current.

California probably has the best state assessment ratio studies in the entire nation. The California State Board of Equalization directs the studies on the basis of appraisals carried out by its Intercounty Equalization Division. The studies, which are published and available to the public, provide an accurate measure of school district and county wealth. Thus the state can distribute equalizing aid on a rational basis.

Minnesota, Georgia, Tennessee, South Dakota and *Florida* have made recent progress in consolidating small assessment jurisdictions. In *New York, Michigan* and *Illinois*, consolidation is encouraged by law, but it is not taking place.

Oregon should be noted for its achievement of raising the statewide ratio of assessed value to market value from 25 per cent to nearly 100 per cent. This development, coupled with a strengthening of the state supervisory agency, has virtually achieved uniformity among counties in assessments. Remarkable progress has also been made on achieving uniformity within counties.

Appendix 1

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Appendix 2

NORTH DAKOTA'S WEIGHTING FACTORS

Enrollment Category	Factor	Per Pupil Payments
Rural, one-teacher	1.30	$702.00
Elementary schools, less than 100	1.00	540.00
Elementary schools, 100-199	.90	486.00
Elementary schools, 200 or more	.88	475.20
Elementary schools, 1000 or more	.92	496.80
High schools, less than 75	1.70	918.00
High schools, 75-149	1.40	756.00
High schools, 150-549	1.32	712.80
High schools, 550 or more	1.20	648.00

(Supplement to Major School Finance Changes in 1973)

THE FLORIDA EDUCATION FINANCE ACT OF 1973

Since 1947 Florida has financed its schools under the Minimum Foundation Program. Local school districts (all school districts in the state are countywide) were allowed to levy 10 mills on the local assessed valuation of property for school purposes. A vote of the people was not required. Local districts could tax up to 10 additional mills by a special vote. School districts had to levy 4.5 mills to participate in the foundation program. The local share of the foundation program was 95 per cent of the calculated yield of the 4.5 mill tax on 100 per cent of the non-exempt assessed valuation of each district for the preceding calendar year.

The state share in the foundation plan was a calculated amount based on instructional units minus local share. Instructional unit size differed with school size. Additional units were allowed for exceptional children, kindergarten children and vocational and adult education.

Florida's system suffered from the same equity problems made famous in the Serrano and Rodriguez cases. There is great disparity in local taxable wealth. While Palm Beach District has $44,404 of assessed property value for every student in average daily attendance (ADA), Gadsden District has only $5,182.

Another problem in Florida was uniformity of local assessments. School aid was distributed according to local wealth. To get a true picture of local wealth, counties were penalized by a reduction in school aid if assessment levels were not where the state prescribed they should be (100% of full cash value). But a Florida Supreme Court decision ruled against the procedure in 1973 and weakened the Minimum Foundation Program.

The Beginning of Reform

In the summer of 1971, Governor Askew appointed the Governor's Citizens' Committee on Education. The committee was funded by the legislature and was charged with the mission of studying all levels of education and making recommendations to the people of Florida. In 1972 the committee received a Ford Foundation Grant to make an in-depth study of school finance in Florida The committee published its report, Improving Education in Florida, in March 1973. The recommendations of the committee and its consultants led to the adoption by the legislature of "The Florida Education Finance Act of 1973."

The New Law

The Florida Education Finance Act of 1973 (Committee Substitute for House Bill 734) won the overwhelming approval of the Florida legislature. Major features of the new law are: (1) a change from instructional units to full time equivalents (FTE) as the basic revenue allocation unit; (2) substantial school district equalization; (3) weighting factors for varying costs; and (4) a comprehensive information system with school-by-school assessment and accounting. The legislature budgeted a record $132 million increase in state funding to pay for the program.

Full Time Equivalents

One of the major changes in Florida school finance law was a change from instructional units to FTE's. Full-time equivalents are to be calculated during one week in the fall and one week in the spring. The weeks chosen for the calcualtions are to be those that best represent normal enrollment. For each school program, FTE equals the number of students enrolled times the ratio of the number of hours per week that the student attends that

program to the number of hours per week a full-time student at that grade level normally attends school.

$$\text{FTE} = \text{No. of students enrolled in program} \times \frac{\text{number of hours students attend program}}{\text{number of hours per week a full-time student at that grade level attends school}}$$

The advantages of this method of calculating FTE's are (1) that districts will not lose money because of abnormally low attendance during the calculation period and (2) that it insures against double counting in all programs.

Cost Weightings

Under CS 734, grade levels and educational programs are weighted according to cost factors. For example, one first grade FTE student is weighted at 1.20 while a fourth grade FTE is weighted at 1.00. There are 15 weightings for handicapped and exceptional students, six weightings for vocational education and two for adult general education programs. The weightings are a remnant of the weighting system under the instructional unit plan. Florida now hopes to refine these weightings to reflect more accurately needs and costs.

In addition to educational program cost factors the new legislation provides for a cost-of-living factor for each school district and a compensatory education factor to be added into the school finance formula.

Distribution Formula

Under the new law each school district will have an approximately equal

amount of dollars per FTE. The equalizing factor in the law is that wealthy districts will have to contribute more to there own local budgets than poorer districts.

Local Share -- In the 1973-74 school year, total local share under the new law is defined as $324,000,000. Each district's share of total state assessed valuation is determined. A district's percentage of valuation is multiplied by $324,000,000 and the product equals what the district must contribute to the finance program. Beginning with the 1974-75 fiscal year, local required effort is defined as a seven mill tax levied on 95 per cent of one hundred per cent of the non-exempt assessed valuation. Equalization is achieved since seven mills produce more revenue in wealthy districts than in poor districts. Thus wealthy districts contribute a greater share of their own operating budget than do poor districts. No district can levy more than 10 mills. The state equalizes the yield of the eighth, nineth, and tenth mill if levied.

State Share -- To determine the state share of the local budget: (1) the number of local FTE's is multiplied by the weighting factors for educational programs; (2) this amount is multiplied by a basic student cost (for the 1973-1974 school year, the basic student cost will be $587); (3) To this product is added the compensatory education factor (.05 X base student cost per FTE for each qualifying student); (4) the sum is multiplied by a county cost-of-living factor; and finally (5) required local effort is subtracted.

(FTE's X Cost Factor X $587 + Compensatory Education Factor) X Cost-of-Living Factor - Required Local Effort = State Share

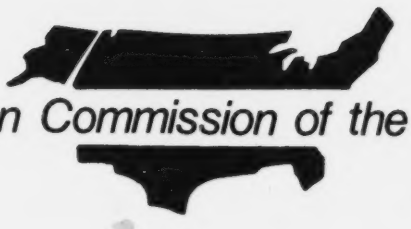
In addition to the basic formula, poorer districts will receive state money to equalize any mills levied in excess of the required seven mills. The state also pay local districts an amount equal to local revenue lost due to certain property tax exemptions.

Comprehensive Information, Accounting and Reporting System

An important feature of CS 734 is its provision for the development and implementation of a comprehensive management information and assessment system. The commissioner of education is to insure that individual district management information and assessment systems provide the data necessary to maintain the new finance program. The management system is to generate school-by-school data rather than just district-by-district information. Reporting terms will be standardized. Management objectives will be compatible at all policy levels. Student performance indicators will be comparable to national performance indicators. Each district and each school will be required to account for expenditures by reporting cost data by program.

Property Tax Reform

Florida school finance reformers realized that property tax reform must accompany school finance reform. In a companion bill (HB 1331), Florida took a major step forward in promoting uniformity of local assessments. The bill gives the Department of Revenue the authority necessary to prescribe rules and regulations governing local property tax administration. The bill calls for state property assessment manuals, state participation in aerial photography and mapping, the classification of real property for tax purposes and for the audit of local tax rolls by the state auditor general. The bill also establishes a property tax loan fund to aid in the upgrading of local assessment administration.



Education Commission of the States

The Education Commission of the States is a nonprofit organization formed by interstate compact in 1966. Forty-six states and territories are now members. Its goal is to further a working relationship among state governors, legislators and educators for the improvement of education. This report is an outcome of one of many Commission undertakings at all levels of education. The Commission offices are located at 300 Lincoln Tower, 1860 Lincoln Street, Denver, Colorado 80203.